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TAGS: [EFIN](#) [ECON](#) [ETRD](#) [PREL](#) [AR](#)

SUBJECT: ARGENTINE OFFICIALS PRIVATELY ADMIT PARIS CLUB
PAYMENT AND PRIVATE DEBT DEALS ON HOLD

REF: A. BUENOS AIRES 1395

[1](#)B. BUENOS AIRES 1396

[1](#)C. BUENOS AIRES 1330

[1](#)D. BUENOS AIRES 1493

Classified By: Charge d'Affaires Thomas P. Kelly for Reasons 1.4 (b,d)

Summary

[1](#)1. (C) Senior Argentine government (GoA) and Central Bank (BCRA) officials privately confirm to Post what local and foreign press have taken as a given for weeks: in the current crisis environment, the GoA has put its Paris Club payment, debt exchange with private "holdout" bondholders, and a linked mini-debt swap of shorter maturity bonds on indefinite hiatus. While the GoA has almost completed reconciling official debt numbers with individual Paris Club creditors, the consensus is that it is not prudent to pay out over \$6 billion reserves to clear Paris Club arrears when the BCRA is spending over \$1 billion per week to defend the peso. In addition, there is no market to launch either of the private debt deals with Argentine bonds trading at default levels. Senior Argentine officials have given recent assurances that the GoA intends to pursue these negotiations once the international financial context has improved, but Post does not expect that moment to arrive anytime soon. End Summary.

Spending BCRA Reserves on PC: "Just Not Prudent"

[1](#)2. (C) For the first time, senior GoA Economy Ministry and BCRA officials are privately confirming to Post that within their institutions there is a general understanding that the Paris Club and other debt deals are on indefinite hold, pending major improvements in international and domestic capital markets. (This cable updates Post's previous reporting on Paris Club and private debt deals. See Refs A and B.)

[1](#)3. (C) The Economy Ministry's Director of Public Credit, Norberto Lopez Isnardi (PROTECT), told Econoffs recently that there is little question that the President's initiative to pay arrears owed to Paris Club creditors (announced September 2) is on a slow track. From his perspective, the transaction is on hold, with the GoA officials he deals with on the issue "dragging their feet" to delay the process. He reported his understanding that the Deputy Chairman of the Paris Club Secretariat recently told Finance Secretary Hernan Lorenzino that "the Club will not demand the payment under the current international context...and Argentina can wait until the (international) situation improves." Lopez noted that the reconciliation of contractual figures is almost complete, and

that the GoA and Paris Club creditors only need to agree on the calculation of punitive interest and fees.

14. (C) Juan Carlos Barboza (PROTECT), the BCRA's Senior Manager of Foreign Exchange Reserves, offered Econoff a similar view from the perspective of the BCRA. While he was not aware of an official change of policy, he noted that within the BCRA there was full agreement that it "would not be prudent" to use \$6-7 billion dollars of fast dwindling BCRA reserves to pay Paris Club arrears at a time when the BCRA has been selling over one billion dollars in reserves per week (and an estimated \$3 billion during the month of October) to support the peso in an increasingly fragile economic environment.

15. (C) Barboza stated that there has been no recent communication from the Finance Secretariat over the BCRA's planned purchase of a GoA bond, which is the envisioned vehicle for the BCRA to provide hard currencies to the GoA. He has informed Finance Secretariat officials that the BCRA requires advance notice to acquire sufficient amounts of the various currencies (i.e., Yen, Euros) needed to pay the different Paris Club creditors, and takes their lack of response as a sign that the GoA is not making this a priority issue.

GoA Debt Yields Preclude Debt Exchange Reopening

16. (C) Lopez Isnardi also informed Econoffs that the reopening of the 2005 debt exchange to resolve the myriad problems the GoA faces with holdout bondholders is also

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indefinitely delayed. (President Cristina Fernandez de Kirchner announced that the GoA was considering this option on September 22; Ref C.) He said that the Economy Ministry submitted a Form 8-K (which announces major events) to the U.S. SEC and continues to work on a decree to update the ShelfRegistration (the arrangement with the SEC that permits issuance of multiple securities under a single registration document).

17. (C) However, with the GoA's dollar-denominated, New York law, 2033 Discount bonds trading at yields in the 24% range as of November 4 (down from 30.5% October 29), Lopez stressed that no transaction is possible in the current environment. Barboza reiterated this point, arguing that the GoA will not sell bonds at current yields, and investors would not buy them if it did. The problem is not just that market conditions do not favor the roll-over of the Holdouts' untendered defaulted bonds (stemming from the 2001 default) into newly issued Discount 33s. The fact that the GoA has demanded a "new money" element is also a deal killer in the current market environment. Post's contacts in the banking sector say there is no private sector interest in using fresh funds to purchase Argentine debt at current yields.

18. (C) Lopez stated that the Economy Ministry is working with bank underwriters Barclays, Citi, Deutsche Bank to ensure that they have all the legal documents in place to launch the transaction once a market window presents itself. However, neither he nor Barboza saw any hope for this transaction to proceed anytime in the near future.

Mini-Debt Exchange Still On Drawing Board

19. (C) As with the holdout debt swap, there is no market at present to allow the GoA to implement its plan to refinance the bulge in bonds maturing during the next three years: the peso-denominated Guaranteed Loans (GL) and dollar-denominated Boden 2012s (roughly half of which are held domestically and half by foreign investors). Barboza notes that this is the

most important deal of the three, from the GoA's perspective, as it would cut the GoA's debt payments by between \$1.8 and 2.5 billion in each of the next three years.

¶10. (C) Barboza added that he has heard that Economy Ministry officials still hope for an opportunity this year to do at least a partial debt swap with local financial institutions. Lopez also believes a local tranche covering only the GLs is still a reasonable option, since they are illiquid bonds and local financial institutions are interested in getting rid of them. (Comment: The planned nationalization of the private pension funds will lessen the urgency of doing this debt swap, as the GoA will be in a position to just roll over GoA bonds held by the pension funds, and so reportedly reducing debt amortization in 2009 by \$1.5 - 3 billion.)

¶11. (C) Lopez confirms that there is no possibility of doing a swap with international debt holders for the same reasons blocking the larger exchange with Holdouts. Furthermore, the GoA's continued insistence on a new money component as part of the mini-swap is also an obstacle, even for a local tranche. The GoA wants to require that holders of the GLs buy a new peso-denominated bond using 70% GLs and 30% cash. However, again, there is no chance of new money given current market conditions. Barboza notes that the GoA is reluctant to make an exception just for a local debt swap (i.e., doing a straight swap for the GLs, without requiring new money), because of the precedent (or expectations among bondholders) it would create for future debt swaps. (Comment: Argentine bank Banco Galicia's chief economist speculated to Econoff that if the GoA is unsuccessful in finding a market opening to do the GL swap, it will just force the local holders of GLs to do a swap on its terms.)

Comment

¶12. (C) For weeks it has been an obvious call for market players in Argentina's tightly knit domestic capital markets that, given the worsening current international and domestic financial uncertainty, the Paris Club and other debt exchange deals are on hold. Nevertheless, as reported Ref D, Argentina's President and Cabinet Chief recently told a prominent U.S. citizen that the GoA has every intention to continue the Paris Club and private debt negotiations once the "international financial context" has improved. Private

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sector contacts close to the Kirchners confirm that this is the plan, and the comments from both Norberto Lopez Isnardi and Juan Carlos Barboza also corroborate the idea that the GoA's goal is to progress as far as possible with preparation of the three deals, in anticipation of a possible "market window" that will allow them to conclude them. However, with continuing uncertainty in global markets, a rapidly decelerating domestic economy, and spiking debt payment obligations during 2009 and 2010, Post considers that the GoA will have great difficulty fulfilling its promise to pay the Paris Club or conclude significant debt negotiations with private creditors prior to next spring, and maybe not even during 2009.

KELLY